

DELAY IN DEVELOPMENT OF AN EQUIPMENT FOR AIR FORCE

MINISTRY OF DEFENCE
(DEPARTMENT OF DEFENCE RESEARCH
AND DEVELOPMENT)

**PUBLIC ACCOUNTS
COMMITTEE
1989-90
HUNDRED AND SEVENTEETH
REPORT**

EIGHTH LOK SABHA



**LOK SABHA SECRETARIAT
NEW DELHI**

**HUNDRED AND SEVENTIETH
REPORT**

**PUBLIC ACCOUNTS COMMITTEE
(1989-90)**

(EIGHTH LOK SABHA)

**DELAY IN DEVELOPMENT OF
AN EQUIPMENT FOR AIR FORCE**

**MINISTRY OF DEFENCE
(DEPARTMENT OF DEFENCE RESEARCH
AND DEVELOPMENT)**

[Action taken on 76th Report (8th Lok Sabha)]



Presented to Lok Sabha on 20.7.1989

Laid in Rajya Sabha on 20.7.1989

**LOK SABHA SECRETARIAT
NEW DELHI**

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COPRIGENDA TO 170TH REPORT OF THE
PUBLIC ACCOUNTS COMMITTEE (8th LOK SABHA)

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(1989-90)

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* Due to resignation by Shri Bh. Vijayakumar Raju w.e.f. 10-5-89.

** Due to resignation by Sarvashri S. Jaipal Reddy and Parvathaneni Upendra w.e.f. 12-5-89.

@ Due to resignation by Shri Saifuddin Chowdhary w.e.f. 1-6-1989.

(iv)

20. Vacant**

21. Vacant‡

22. Vacant‡

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‡ Due to resignation by Sarvashri Jaswant Singh and Virendra Verma w.e.f. 13-5-1989.

INTRODUCTION

1. the Chairman of the Public Accounts Committee as authorised by the Committee, do present on their behalf this Hundred and Seventieth Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their 76th Report (Eigath Lok Sabha) relating to delay in development of an equipment for Air Force.

2. The Committee have expressed unhappiness over inordinate delay in the development of equipment 'X' which not only resulted in huge escalation in the cost of the Research Project from Rs. 142.50 lakhs to Rs. 578.78 lakhs but an additional expenditure of Rs. 45.6 crores had also to be incurred on importing a number of similar equipment to meet urgent air defence requirement. The Committee have recommended that the production of Versions I and II of the equipment involving a huge outlay of Rs. 531.08 crores should be monitored effectively so as to ensure that there is no slippage from the laid down production schedule.

3. The Committee have been deeply distressed over the failure of the contract entered into with a foreign firm 'B' on 20-6-1979 for the development of a high technology critical sub-system, required for the development of equipment 'X' inspite of the fact that by May 1981, a sum of \$ 7,36,250 (Rs. 58.90 lakhs) being 95 per cent of contract value was drawn by firm 'B'. In the opinion of the Committee the non-cooperative attitude of firm 'B' and lack of adequate vigilance and timely precautions on the part of the concerned authorities of the Department are mainly responsible for this unhappy situation. There was inexcusable delay in the termination of the contract in September, 1984 even though there was no progress of work after August 1982. The Committee have strongly recommended that the question of claim preferred with the bankruptcy court of the foreign country should be continuously pursued. The Committee have also recommended that the procedure for development contracts for projects should be urgently streamlined in the light of the Report of the expert Committee so that financial interests of the Government are not jeopardised in future as has been the sad experience in this case.

4. The Committee have expressed concern that the Scientist on whom the Ministry incurred an expenditure of Rs. 6.43 lakhs and

who had surreptitiously left the country sometime in 1983 has not been repatriated even after the lapse of about 6 years. What is regrettable is the fact that formal complaint in the case was filed before the Chief Judicial Magistrate, Ernakulam only in September, 1987 on an advice by the Ministry of External Affairs in April 1987. The Committee have deprecated such a lackadaisical approach on the part of the concerned authorities. The Committee have recommended that the Government should take all effective measures to get the Scientist repatriated. Immediate steps must also be taken to enforce against the sureties the Bond made in favour of the Government.

5. On 4 October, 1988 the Public Accounts Committee (1988-89) took evidence of the representatives of the Ministry of Defence (Department of Defence Research and Development) on certain points arising out of the action taken notes. The Report was considered and adopted by the Public Accounts Committee at their sitting held on 12 July, 1989. Minutes of these sittings form Part II of the Report.

6. For facility of reference and convenience, the recommendations and conclusions of the Committee have been printed in thick type in the body of the Report and have also been reproduced in a consolidated form in Appendix II to the Report.

7. The Committee would like to express their thanks to the Public Accounts Committee (1988-89) for taking evidence on certain points arising out of the action taken notes.

8. The Committee place on record their appreciation of the assistance rendered to them in the matter by the Office of the Comptroller and Auditor General of India.

NEW DELHI;
July 18, 1989
Asadha 27, 1911 (S)

P. KOLANDAIVELU,
Chairman,
Public Accounts Committee.

CHAPTER I

REPORT

11. This Report of the Committee deals with the action taken by Government on the Committee's recommendations/observations contained in their report* on delay in development of an equipment for Air Force.

1.2 The Committee's report contained 12 recommendations/observations. Action taken notes on all these recommendations/observations have been received from the Ministry of Defence (Department of Defence Research and Development). On 4 October, 1988, the Committee took evidence of the representatives of the Ministry of Defence (Department of Defence Research and Development) on certain points arising out of these action taken notes. The action taken notes have been broadly divided into four categories as indicated in Appendix I.

1.3 In the succeeding paragraphs the Committee deal with action taken on some of their recommendations/observations.

***Delay in development of equipment 'X'*

1.4 The Air Force projected an operational requirement for equipment 'X' to function as an early warning station for air defence in March 1967. The Research and Development Establishment took more than 7 years to submit the project (submitted in December 1974) for development of this equipment. The Ministry of Defence further took 1½ years to accord sanction to the project for development of the equipment at a cost of Rs. 142.50 lakhs (including foreign exchange Rs. 84 lakhs). In November 1976, a public sector undertaking was nominated to produce 41 numbers of the equipment as required by the Air Force. According to the targets laid down, the Air Force to accept a model of the equipment for user trials in September 1982 and supply of the equipment was to commence from September 1984. Noting that the project had not made any headway and that there was no specific indication about the time by which the equipment would actually be available. The Committee, had, in their earlier Report, expressed surprise that

* Seventy-sixth Report (8th Lok Sabha) on paragraph 10 of the Report of the Comptroller and Auditor General of India for the year 1984-85, Union Government (Defence Services).

** Sl. Nos. 1-2, Paragraphs 50-51 of 76 Report.

inspite of the fact that requirement was projected as operational need by the Air Force as early as in March 1967, the equipment which was of urgent necessity for defence requirement could not be provided even after a lapse of over 19 years. Due to the delay in development of the equipment, a contract had to be signed with a foreign country for import of 8 number of similar equipment at a total cost of Rs. 45.6 crores.

1.5 In their action taken note, the Ministry of Defence (Department of Defence Research and Development) have stated that even though the Air Force projected an operational requirement for equipment 'X' in 1967 it was generally known that no such equipment fully meeting these requirements was readily available at that time anywhere in the world. According to the Department, the DRDO also were not ready to commit themselves to this project at that stage and efforts were made by the Government to locate a suitable equipment by import from advanced countries. It was only in 1974 that, based on a study of the literature available at that time, which reported certain new techniques for improved detectability of targets in clutter, that, DRDO felt confident enough to oppose undertaking this development.

1.6 According to the Department, production of version I of this equipment has already commenced at the PSU and the production plan has been finalised. According to the plan so drawn, the first unit of version I was expected to be delivered to the Indian Air Force/Army by October/December, 1988 and thereafter requirement of users would be met according to a set production plan. The Department have also stated that development of version II of the equipment has already been completed and after field trials users have recommended it for introduction into service.

Transfer of technology to the PSU is reported to have been completed and the PSU has received orders for production of the version.

1.7 Even if the contention of the DRDO that they felt confident enough in 1974 only to undertake this project is accepted the Committee feel that 14 years is too long a time for undertaking production of version I of the equipment particularly when the country was spending scarce foreign exchange on purchase of the equipment. The Committee hope that such delays would be avoided in future.

1.8 The Committee may be informed whether according to the plan drawn, the first unit of version I was delivered by December

1988 and whether the schedule of production is being maintained by the PSU. If not, the Committee would desire to know the steps taken to avoid further delays in procurement of the equipment.

1.9 There was also a steep escalation in the cost of the project in as much as the original cost of the project of Rs. 142.50 lakhs, the total project expenditure as on June 1986 was Rs. 492.32 lakhs. The Secretary, Department of Defence Research and Development informed the Committee during evidence on 4-10-1988, that the original sanction for the development project was Rs. 142.50 lakhs which was increased to Rs. 578.76 lakhs. He further explained that in this amount of Rs. 578.76 lakhs, LRDE contribution was Rs. 117.7 lakhs including original sanction of Rs. 142.50 lakhs, an amount of Rs. 207.52 lakhs was paid to the PSU for engineering etc. and that an amount of Rs. 149.4 lakhs was earmarked for equipment processing system. The contract cost with foreign firm 'B' for development of sub-system 'XX' was reported to be Rs. 73.67 lakhs. In a note subsequently furnished by the Department, it has been stated that the total expenditure including commitment as on 30-9-1988 was Rs. 548.29 lakhs. It has also been stated by the Department that the PSU has not incurred any expenditure for Research and Development outside the finance provided by the Ministry.

1.10 The Department have also stated that as per the present DRDO accounting procedures, there is a standing core Permanent Establishment (PE) for each laboratory, the expenditure on which was not booked into the project cost; the reason according to the Department is that no special manpower was sanctioned specific to this project. As regards the development/contracts placed by DRDO on the PSU, the conversion cost indicated by them was Rs. 99.46 lakhs.

1.11 In their earlier Report the Committee had expressed their concern over the fact that a lot of additional expenditure had to be incurred due to delay in development of equipment 'X' and lack of adequate care in finalising agreement with suppliers. The Committee had recommended that Government should go into this aspect so as to ensure that situation of this type was not repeated in future.

1.12 The Secretary, Department of Defence Research and Development informed during evidence that in pursuance of this recommendation of the Committee, they had appointed a Committee (with Chief Controller, Research and Development as its Chairman) on

effective monitoring and financial management of Research Projects etc; this Committee had submitted their Report in October, 1988. The Department, in a note, subsequently furnished to the Committee, have stated that the steps involved in implementing this Report are as follows:—

- (a) The Report of the Committee will be circulated to all the DRDO Laboratories for their comments.
- (b) Based on the comments, modifications of the report, if any, if considered necessary by the DRDO Headquarters will be incorporated.
- (c) After modifications the report will be formalised by issue of a Government letter.

1.13 According to the Department the revised total cost for indigenous production of both Versions I and II of the equipment would be Rs. 531.08 crores. Further, according to the Department a High Level Project Management Board headed by Raksha Rajya Mantri (P) has been formed for close monitoring of the Project.

1.14 The Committee are unhappy to note that the inordinate delay in the development of equipment 'X' not only resulted in huge escalation in the cost of the Research Project from Rs. 142.50 lakhs to Rs. 578.76 lakhs but an additional expenditure of Rs. 45.6 crores had also to be incurred on importing 8 number of similar equipment to meet urgent air defence requirement. The Committee further note that in pursuance of their earlier recommendation, Government had appointed a Committee on effective monitoring and financial management of research projects, which submitted their Report in October 1988. The Committee recommend that action on all the necessary steps connected with the issue of appropriate orders and implementation of the order should be closely monitored, so as to ensure that situation leading to inordinate delay and cost over-run on the research projects is not repeated in future. The Committee also recommend that the production of Versions I and II of the equipment involving a huge outlay of Rs. 531.08 crores should be monitored effectively so as to ensure that there is no slippage from the laid down production schedule.

**Failure of the contract with firm 'B'*

1.15 Contract was concluded with a foreign firm 'B' on 20-8-1979 on cost plus fee basis with a ceiling FOB cost of \$ 7,75,000 for development of sub-system 'XX' for the equipment. The contract did not stipulate any penalty clause for delay or failure of supplies. Though by May, 1981, a sum of \$ 7,36,250 (Rs. 58.90 lakhs) being 95 per cent of contract value, was drawn by firm 'B', the firm failed to complete the contract inspite of the fact that 4 amendments extending the date of delivery were issued in January, 1982, September, 1982, June, 1983 and September, 1983 respectively. As there was no progress of work after August 1982, the contract termination notice was eventually issued in September, 1984.

1.16 Due to failure of contract with firm 'B' equipment worth Rs. 12.08 lakhs procured for sub-system 'XX' remained unused till June, 1985. The equipment remained unused in the warehouse since January 1983 and was shipped to India on 24-6-1985.

1.17 Further 2 tubes meant for sub-system 'XX' and procured from another foreign firm at a total cost of \$ 1,84,159 in July/August 1982, became defective due to prolonged storage in the premises of firm 'B'. While one of the tubes was got repaired, the other one was not repaired as the cost of repairs was more than half of the cost of the tube. These tubes were allowed to remain with firm 'B' even after termination of the contract. In their earlier Report the Committee had observed that there were serious lacunae in drafting as well as enforcing of the agreement with the firm. The Committee had also emphasized that the Government should, in future, exercise adequate precaution and care in drafting agreement with firms, particularly in foreign countries, so that the financial interests of the Government are not jeopardised and there was no loss to the Government. The Committee in their earlier Report had also expressed unhappiness that though the contract was terminated in September, 1984, there was still no progress on the arbitration proceedings instituted against the firm in January 1985.

1.18 During evidence the Committee were informed that after 1982 the firm B went into a difficult situation and it could not hold on the engineers working with them and there was no further cash

* Sl. Nos. 4 8, Paragraphs 53-56 of 76 Report.

flow from the Indian Government also. Three specialised engineers working on this project were reported to have moved out of the firm B around June-July 1982. Since the financial position of the firm was already in shambles and the Indian Government had already paid 95 per cent of the contracted amount, the Committee enquired why the Government did not invoke the bank guarantee when the specialised engineers had pulled out. The representative of the Department stated during evidence that the President of the firm kept assuring the Government of India that if some more incentives from Government of India and some more time were given to him, the job would be completed. Since 95 per cent had already been paid, the Committee enquired what other incentives the firm was looking forward to and with the withdrawal of the engineers and the bank guarantee period being on the point of lapsing, the Committee desired to know the reasons for not enforcing the bank guarantee. The representative of the Ministry stated that the main thrust of going in for this contract was acquisition of the hi-tech item for the equipment and that though the bank guarantee could have been encashed and the issue precipitated the Department asked the President of the firm to come to the negotiating table. The representative further added that the issue depended on the ability of the management to find somebody also who could do this work. Asked to state whether between 1982 and 1984 firm B called for any other engineer who had more knowledge or expertise in this field, the representative stated that he was not aware of it.

1.19 In their action taken note, the Department of Defence Research and Development have stated that inspite of all the best efforts of the Laboratory, the contract had to be terminated in September 1984. With regard to the delay in instituting arbitration proceedings, the Department have stated that certain procedural steps had to be gone through as per the contract. According to the Department the DGISW in that country could not succeed in getting the Arbitrator appointed from a panel of names suggested to him due to uncooperative attitude of the foreign firm. Meanwhile, the firm had declared itself as bankrupt and gone into liquidation.

1.20 The chronological order of happenings in respect of the arbitration proceedings as furnished by the Department are as follows:

-
- | | |
|--|----------------|
| (a) Date of appointment of arbitrator | — 01 May 1985 |
| (b) Date of lodging of our claim with the arbitrator | — 16 May 1985 |
| (c) Date of reply by the firm with the arbitrator | — 21 June 1985 |

-
- (d) Date of start of arbitration proceedings in the foreign country as set by the arbitrator — 09 August 85 changed to 09 September 1985 again changed to 29 October, 85
- (e) Date on which the firm obtained a stay order on the arbitration proceedings — 18 October, 1985
- (f) Date of meeting of firm lawyer and our lawyer as per court directive and norms for arbitrator appointment agreed to and the court informed accordingly. — 18 October, 1985
- (g) Fresh panel of arbitrators forwarded to the firm — 10 March, 1986
- (h) Date of firm declaring bankrupt — 22 Sept., 1987
- (i) Date of preferring our claims in the foreign country with the court — 25 Sept., 1987
- (j) Date of sale of assets of the firm by the official receiver of the foreign country's court and the GOI officials approaching them for retrieval of GOI stores. — 29 Sept., 1987
- (k) Date of preferring claims with foreign country's Bankruptcy Court again — April, 1988
- (l) Date of hearing of claims by Bankruptcy Court. — Not yet set, case pending as on date.
-

1.21 With regard to the two tubes the Department have stated that whether the tube that was repaired was in proper working condition or not could not be established due to failure on the part of the contractor and hence it was not collected. According to the Department no action was taken to retrieve the tubes due to following reasons:

- (a) No useful purpose would have been served by bringing the tubes to India, especially the repaired tube whose performance conditions were not established after repair. We had no power supply with us at that point of time to put the tube for proper use.
- (b) Since we went for claiming damages through arbitration including the cost of the two tubes, no purpose would have been served by bringing them back.
- (c) At the time of the firm's liquidation efforts were made to retrieve the tubes and prevent them being sold. This could not be done as the said items were not identifiable by GOI officers from Consular General's office as they were not familiar with the item. The firm's President refused to co-operate in this matter.

1.22 An expert committee was nominated by Scientific Adviser to Raksha Mantri to go into the various aspects regarding the failure of tubes at the premises of the firm 'B'. The Committee has drawn the following conclusions:

- (a) "Government of India/DRDO Laboratory has been closely monitoring the progress of the project through their resident representative and possible corrective measures have been taken to progress the project expeditiously".
- (b) The Committee infers from the records that the onus of the responsibility rested totally with firm 'B' leading to the present situation.

1.23 The Secretary, Department of Defence Research and Development informed the Committee during evidence that in pursuance of the earlier recommendation of the Committee, a Committee was appointed to go into procedure for awarding defence contracts and the Committee were, in particular, requested to devise a suitable pro forma. He further informed that the Committee had submitted their Report, which has been sent to the Law Ministry because this pro forma has to be validated by the Law Ministry. In a note subsequently furnished by the Department, it has been further stated as follows:

- (a) After seeking legal views the report will be modified and approved by the DRDO Headquarters.
- (b) Then a Government letter will be issued detailing the procedures to be followed for placing various contracts by DRDO Establishment/Laboratory.

1.24 The Committee are deeply distressed over the failure of the contract entered into with a foreign firm 'B' on 20-6-1979 for the development of a high technology critical sub-system, required for the development of equipment 'X' inspite of the fact that by May 1981, sum of \$7,36,250 (Rs. 58.90 lakhs) being 95 per cent of contract value was drawn by firm 'B'. The contract failed despite the fact that four amendments extending the date of delivery were issued in January 1982, September 1982, June 1983 and September 1983, respectively. This not only delayed the development of equipment 'X' but has also resulted in a substantial loss to the exchequer. The non-cooperative attitude of firm 'B' and lack of adequate vigilance and timely precautions on the part of the concerned authorities of the Department are mainly responsible for this unhappy

situation. There was inexcusable delay in the termination of the contract in September, 1984 even though there was no progress of work after August 1983.

1.25 The Committee find that even after termination of the contract there has been lack of urgency on the part of the authorities to safeguard their financial interests. The lack of adequate efforts on the part of the authorities is evident from the inordinate time gaps in forwarding fresh panel of names for appointment as arbitrator and pursuing the issue of appointment of arbitrator.

1.26 Even the 2 tubes procured at a cost of \$ 1,84,159 were not only allowed to remain with firm 'B' after the termination of the contract in September 1984 but no worthwhile efforts appeared to have been made to retrieve the tubes after the firm had declared itself bankrupt and going into liquidation on 22 September 1987. The Committee cannot but express their displeasure at the back of concern on the part of the concerned authorities for the financial interests of the country. The Committee strongly recommend that the question of claim preferred with the Bankruptcy court of the foreign country should be continuously pursued. The Committee also recommend that the procedure for development contracts for projects should be urgently streamlined in the light of the Report of the expert Committee so that financial interests of the Government are not jeopardised in future as has been the sad experience in this case. The Committee hope that the Government would draw a lesson from this sad experience and streamline the procedure adequately to avoid recurrence of such lapses in future as the country cannot afford to take any chances in items concerning the defence preparedness of the country.

**Repatriation of the Scientist*

1.27 A Scientist on whom the Ministry incurred an expenditure of Rs. 6.43 lakhs and who was deputed abroad in connection with the purchase of the equipment surreptitiously left the country and had not been repatriated. The Committee had recommended in their earlier Report that Government must take effective measures to get him repatriated and also take adequate steps in future to ensure that such incidents do not recur. The Committee had also emphasized that steps should be taken immediately to execute the Bond made in favour of the Government.

*Sl. No. 9 Para 58 of 76th Report.

1.28 In their action taken note, Department of Defence Research and Development have stated that a criminal case has been filed against the Scientist in the Court of Chief Metropolitan Magistrate at Ernakulam for violation of the Passport Act. According to the Department, conviction of the Scientist for a criminal offence in India will facilitate his speedy repatriation. According to the Department, Chief Judicial Magistrate Ernakulam has since issued a warrant of arrest against the Scientist through the Commissioner of Police, Cochin and also the concerned authorities in the foreign country have been apprised accordingly.

1.29 The Department have issued notices to the sureties to discharge their liabilities arising out of non-compliance of bond provisions. The Department have also issued necessary instructions for obviating the chances of the recurrence of such incidents in future.

1.30 In this connection, it may be stated that after the expiry of the Scientist's leave in August 1983, he remained absent and applied for extension of leave for 3 months. This was refused and he was asked to report back for duty by 07 September 1983. As he did not rejoin duty, enquiries were made at his home address in Trivandrum and at his temporary address at Bangalore which revealed that he had left the country.

1.31 Some of the relevant facts in this case as subsequently intimated by the Department of Defence Research and Development are as follows:

December, 1986 (i) Ministry of External Affairs had asked the Deputy Commissioner of Police, New Delhi District to lodge a complaint with a view to prosecuting the officers under section 12(3) of the Passport Act 1967.

The Ministry had also informed Central Police Station, Ernakulam that State Govt. have already been authorised to sanction prosecution under section 12 of the Passport Act, 1967.

January, 1987 (ii) Regional Passport Office Ernakulam was requested to lodge a formal report with Inspector of Police, Ernakulam, who has issued show cause notice to the officer.

February, 1987 (iii) The Commissioner of Police, Ernakulam was requested to further action to prosecute the Scientist. Ministry of External Affairs had given details of the case to SHO Tilak Marg Police Station New Delhi and asked for certain information to be given to the SHO.

March, (iv) All documents as desired by Ministry of External Affairs Were given to SHO, Tilak Marg Police Station New Delhi.

- April, 1987** (v) Embassy of India, in that country intimated that keeping in view the stand taken by INS, it appears necessary extradition of the officer will be sought after filing charge sheet against the officer in Indian Court and convict him for deserting the Govt. post and adopting fraudulent means to get out of the country.
- The embassy asked for certain particulars of the officer.
- June, 1987** (vi) The required information was passed to Embassy of India in the foreign country.
- August, 1987** (vii) Ministry of External Affairs was informed the all information as required were forwarded to SHO Tilak Marg Police Station.
- September, 1987** (viii) Complaint filed before the CJM Ernakulam.
- November, 1987** (ix) The Chief Judicial Magistrate passed the orders for issue of arrest Warrant of the accused through the Police Commissioner, Cochin. Warrants were issued for execution.

1.32 The Committee are concerned to note that the Scientist on whom the Ministry incurred an expenditure of Rs. 6.43 lakhs and who had surreptitiously left the country sometime in 1983 has not been repatriated even after the lapse of about 6 years. What is regrettable is the fact that formal complaint in the case was filed before the Chief Judicial Magistrate, Ernakulam only in September, 1987 on an advice by the Ministry of External Affairs in April 1987. The Committee feel that such a step should have been taken much earlier in consultation with the Ministry of External Affairs. The Committee deprecate such a lackadaisical approach on the part of the concerned authorities. The Committee recommend that the Government should take all the effective measures to get the Scientist repatriated. Immediate steps must also be taken to enforce against the sureties the Bond made in favour of the Government.

CHAPTER II

RECOMMENDATIONS AND OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation

The Committee feels that the ultimate aim of all defence research and development effort is to attain production capability within the reasonable time span so that the country becomes self-reliant in vital defence equipment. The hard fact remains that the country today, after 19 years of research and development effort has not been provided with this equipment. The Committee need hardly emphasise that the matter should be vigorously pursued with the production agencies to ensure that both the versions of the equipment become available with the Air Force within the shortest possible time.

[Sl. No. 3 (para 52) of Appendix II to 76th Report of PAC
(8th Lok Sabha)]

Action Taken

As regards the comment that 19 years have elapsed since the Air Force Qr was issued, it has been brought out earlier that the research and development effort on this project started only from July 1976.

Further, for the timely delivery of these equipments, it is being ensured that the transfer of technology from the development to production is smooth and a high level Project Management Board with the RRM as the Chairman is overseeing the progress of the production schedule. The transfer of technology is complete and production of version I is on schedule. Version II is presently going through user evaluation at various locations. A letter of intent for production of Qty N has been issued to Public Sector Undertaking. All efforts will be made to see that the Version II production is also on schedule.

[Ministry of Defence (Deptt. of Defence Research and
Development) letter No. Adm./6337/RD-26 (ii)
dated 12-4-1989]

Recommendation

The Committee would like to stress the imperative need for adequately expanding indigenous research activities particularly in the defence field so as to make our country self-reliant. The Committee would also like to be apprised of the reasons as to why in the initial stages the Government had not explored the possibility for indigenous development of these systems and had resorted to foreign contracts which proved totally abortive and led to delay in the execution of project. The Committee are however happy to place on record the excellent technical achievements made by DRDO in the development of equipment 'X'. The Committee note with satisfaction that the Chief of Air Staff has confirmed that the Version I of the equipment already tried by the Air Force is superior to any of the systems that the Air Force had considered for acquiring from foreign countries. Further, the Chief of the Army Staff had also confirmed that they were also happy with the system and they would also like to have the same equipment for meeting their requirement. The committee have also noted with satisfaction that production orders totalling to over Rs. 400 crores have already been placed on to public sector undertaking for Version 1 and Version 2 of equipment 'X' based on the R&D effort of DRDO.

[Sl. No. 11 (para 60) of Appendix II to 76th Report PAC
(8th Lok Sabha)]

Action Taken

Regarding the question as to why the Government had **not** explored the possibility for indigenous development of these **systems** and had resorted to foreign contracts, it is stated that an **expert** team of scientists had **examined** the **feasibility** of taking up indigenous development of these systems in the initial stage of the project (1977-78); but on an examination of the nature of grey areas involved and the expertise then available, had come to the conclusion that indigenous effort was not feasible at that time.

The Department is grateful to the Committee for the observations regarding the success of the Laboratory in developing an equipment that has got into production and for which a letter of Intent for a value of Rs. 400.00 crores has been placed on Public

Sector Undertaking.

DRDO assures the Public Accounts Committee that it will spare no efforts in pursuing R&D projects related to Defence, so that the nation becomes self-reliant in this vital area.

[Ministry of Defence (Department of Defence Research and Development) letter No. Adm/6337/RD-26(ii) dated 12-4-1989]

Recommendation

It is imperative that the development of our weapons systems should keep pace with the technological advancements in other countries and our research and development efforts have to be galvanised in this direction. Defence projects should be carefully planned and implemented efficiently so that there is no unnecessary cost escalation and on the completion of such projects they are not lagging behind the latest scientific technology. There should also be periodical and effective review of the execution of such projects at an appropriate level.

[Sl. No. 12 (para 61) of Appendix II to 76th Report of PAC (8th Lok Sabha)]

Action Taken

All the recommendations of Public Accounts Committee have been taken due note of and steps have been taken to see that the Defence Projects are carefully planned and executed by evolving a system by which all fresh project proposals are planned as meticulously as possible within the limitations of inherent uncertainties of a R&D Project involving advanced technologies. A detailed format has been evolved, which is required to be filled in by the DRDO Lab which is proposing to take up a new project. All fresh project proposals are carefully scrutinised by a plan Review Committee, the concerned Technical Directorate at the DRDO Hqrs. and later by Finance at appropriate level before approval is issued to undertake a project. Both Production agency and the users are associated from the beginning of the project to ensure smooth technology transfer as also quick induction of the end product of the services.

With regard to the steps taken for effective review of project it may be stated that an elaborate hierarchy of monitoring and review systems exists at the Deptt. of Defence Research and Development from day-to-day activities to the review at important milestones for all major and important projects. In addition, there is

also macrolevel monitoring for group of projects, as well as for the total activities, so that the overall perspective is not lost sight of.

Further SA to RM has constituted a Committee to go into all aspect of monitoring and financial management of projects and recommend suitable guidelines to all the DRDO Laboratories. These guidelines when finalised will be intimated to PAC.

[Ministry of Defence (Department of Defence Research and Development) letter No. Adm/6337/RD-26(ii) dated 12-4-1989]

CHAPTER III

RECOMMENDATIONS AND OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN THE LIGHT OF THE REPLIES RECEIVED FROM GOVERNMENT

Recommendation

The Committee also note that contract with a foreign firm 'C' in October 1979 for the development and supply of sub-system 'XZ' at a cost of \$ 5,08,000 was terminated in September 1980 as firm 'C' had expressed their inability to obtain the bank guarantee as stipulated in the draft contract sent to them. Another development contract was concluded in October-November 1981 with foreign firm 'D' at a much higher price of \$ 12,47,000 which was subsequently increased to \$ 12,90,132. The contract was completed by the firm by July 1985. Both the firms 'C' and 'D' belonged to the same country. According to the Department of Defence Research & Development, as per laws of the country of firm 'C' no collateral security was taken from them. The Committee would like to know as to how the firm 'D' could furnish the collateral security under the same laws. The Committee are constrained to believe that either the information given to the Committee was incorrect or there was lack of effort and will on the part of those at the helm of affairs to ensure sufficient safeguards for the Government interest. The Committee desire that the matter should be investigated and responsibility for the lapses fixed. The termination of contract with firm 'C' has resulted in a huge escalation in the cost from \$ 5,08,000 to \$ 12,90,132 in view of the fresh contract with firm 'D'. The reasons for changing the contract from firm 'C' to firm 'D' resulting in increase in the costs requires an explanation.

[Sl. No. 10 (para 59) to Appx. II to 76th Report of PAC
(8th Lok Sabha)]

Action Taken

The comments in this para refer to the negotiations for development and supply of sub-systems 'XZ'. As has been brought out in our earlier submissions, negotiations were entered into with firm 'C' in Oct. 1979 for sub-systems 'XZ'. This contract was called off as the firm 'C' did not agree to provide the required bank guarantee. Subsequently, fresh negotiations were initiated for this sub-system with firm 'D'. After detailed discussions and negotiations

and since the firm 'D' was willing to meet contractual obligations, provide a system with improved specifications and also agreed to transfer of technology related to software, the contract was finally awarded to firm 'B'.

It is submitted that at no time, the Department furnished incorrect information to the Public Accounts Committee. The details of this contract have been got examined by an expert committee formed by the Scientific Adviser to Raksha Mantri, which has also come to the conclusion that in cancelling the contract with firm 'C' and awarding the contract to firm 'D', the interests of the Government were always kept in mind. The conclusions of the Committee are reproduced below:—

“The DRDO Committee is of the view that in respect of the contract with firm 'C' the concerned DRDO Laboratory explored all possibilities and spared no efforts to pursue and sustain the contract with firm 'C' without sacrificing Government's interest at any stage. The DRDO Laboratory was fully convinced that the alternatives available to it with reference to security of Government money were not good enough to safeguard Government interest. Rightly, the contract was allowed to become null and void. When it came to the question of concluding a fresh contract with firm 'D' at a later date, the concerned DRDO Laboratory was able to get a system with specifications and transfer of technology related to software also included at competitive prices. Necessary securities for advance payments and stage payments made in this contract with firm 'D' were obtained and the contract was successfully completed. The DRDO Committee is, therefore, of the view that the concerned DRDO Laboratory did its best in the circumstances and always tried to protect and safeguard the interest of the Government of India and eventually succeeded in getting the sophisticated equipment to its requirements both technical and commercial. There has been no lapse on the part of the concerned Laboratory whatsoever”.

It may be mentioned in the end that the success of this sub-system, has contributed significantly to the successful performance of the equipment 'X'.

[Ministry of Defence (Department of Defence Research and Development) letter No. Adm/6337/RD-26(ii) dated 12-4-1989]

CHAPTER IV

RECOMMENDATIONS AND OBSERVATIONS REPLIES TO WHICH HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION

Recommendation

The Air Force projected an operational requirement for equipment 'X' to function as an early warning station for air defence in March 1967. The Research and Development Establishment took more than 7 years to submit the project in December 1974 for development of this equipment. The Ministry of Defence further took 1½ years to accord sanction to the project for development of the equipment at a cost of Rs. 142.50 lakhs (including foreign exchange Rs. 84 lakhs). In November 1976, a Public Sector Undertaking was nominated to produce 41 numbers of the equipment as required by the Air Force. According to the targets laid down, the Air Force was to accept a model of the equipment for user trials in September 1982 and supply of the equipment was to commence from September 1984. According to the Ministry in arriving at the probable date of completion the urgent nature of the user requirement had to be reconciled with the need for a longer development time. The Committee are astonished to find that in spite of the fact that requirement was projected as operational by the Air Force as early as in March 1967, the equipment which was of urgent necessity for defence requirement could not be provided even after a lapse of over 19 years. The Committee's domination has revealed a number of loopholes which need to be plugged. The Committee would like to observe that projects should be completed within the stipulated time and cost schedule. That is where the importance of efficient project management comes in. Project implementation can be successful only when in addition to the project getting completed on schedule at the estimated costs, the technical performance specified and project goals are fully met. Lamentably, in this particular case of the implementation of project has failed on all counts. The Committee feels concerned to note that the project which was sanctioned at a cost of Rs. 142.50 lakhs in July 1976 has not made any headway even though orders for production to the extent of Rs. 409 crores have been placed on indigenous production agency. The Committee note with regret that even now there is no specific indication about the

time by which this equipment of great strategic importance would actually be available for use with the Air Force.

[Sl. No. 1 (Para. 50) of Appendix II to 76th Report of PAC
(8th Lok Sabha)]

Action Taken

Even though the Air Force projected an operational requirement for equipment 'X' in 1967, it was generally known that no such equipment fully meeting these requirements was readily available at that time anywhere in the world. The DRDO also were not ready to commit themselves to this project at that stage. Efforts were made by the Government to locate a suitable equipment by import from advanced countries. The period 1967—74 was spent in trying various approaches to finding a suitable equipment.

It was only in 1974 that, based on a study of the literature available at that time, which reported certain new techniques for improved detectability of targets in clutter, that DRDO felt confident enough to propose undertaking this development. Based on preliminary studies LRDE submitted a feasibility study for this project in Dec. 1974 and after detailed discussion on the QR, and presentation on the technical approach to the Users, NRC, etc., the project was cleared by the Headquarters, and Government sanction obtained in July 1976.

Production of version 1 of this equipment has already commenced at Public Sector Undertaking and a production plan has been finalised.

The first unit of version 1 equipment is expected to be delivered to the Indian Air Force/Army by Oct./Dec. 88 and thereafter the requirements of the users will be met according to a set production plan. The programme is being monitored by a high level Board and this is on schedule.

While it may be appreciated that in major R&D projects, specially of the kind in which very little is known, it is difficult to precisely estimate the time and cost for the projects, and to keep within these schedules, all efforts will be made to avoid cost and time over-runs by further improving the project planning and monitoring systems. We are also linking the development with production planning during

the early stage of the project itself to minimise delays in technology transfers.

[Ministry of Defence (Department of Defence Research and Development) letter No. Adm/6337/RD-26(ii) dated 12-4-1989]

Recommendation

Another disquieting feature distinctly noticed by the Committee is that non-availability of equipment has left a number of critical gaps in Air Defence, as conceded by the Ministry of Defence. In fact, the need of the equipment was also felt in the 1971 war and during Air Force exercises in later years. Essential Air defence requirements are now being met by importing near suitable equipment and redeploying the available system to cover only the more important areas. A contract had to be signed with a foreign country for import of 8 number of similar equipment at a total cost of Rs. 45.6 crores. The delivery was expected over the period 1985 to 1988. There was also a steep escalation in the cost of this project. Thus, against the original estimated cost of Rs. 142.50 lakhs, total project expenditure as on June 1986 is Rs. 492.32 lakhs. This represents an increase of over 346 per cent over the original estimated cost. The Committee view with concern that a lot of additional expenditure had to be incurred due to delay in the development of equipment 'X' and lack of adequate care in finalising agreement with suppliers. The Committee feels that foremost reason for increase in project expenditure was nothing else but lack of care in scrutinising the agreement with suppliers ignoring the financial interest of the Government. The Committee recommend that Government may go into this aspect so as to ensure that situation of this type is not repeated in future.

[Sl. No. 2 (Para 51) of Appendix II to 76th Report of PAC
(8th Lok Sabha)]

Action Taken

The reasons for the cost increase of some of the contracted agreements with foreign suppliers have been explained in our replies to the Public Accounts Committee. Suitable guidelines are being formulated by constituting a Committee to go into all aspects of monitoring and financial management, of projects and recommend suitable guidelines to all the DRDO/Laboratories so that in future projects, the project expenditure is kept within the stipulated limits. These guidelines when finalised will be intimated to the Public Accounts Committee.

It is, however, submitted that in the present project the development contracts entered into with the foreign firms were found to be essential to ensure availability of the state-of-art sub-systems required for the project. Also, certain parallel approaches for development of critical sub-systems, which had to be resorted to, contributed to the cost increase. Such parallel development contracts are essential to ensure full confidence in the final system. We have taken steps to scrutinise all development contracts fully before orders are placed.

In this particular instance, it is submitted that while the increase in the cost of the project from Rs. 142.50 lakhs to Rs. 492.32 lakhs amounting to an overrun of 346 per cent, this still represents approximately 1 per cent of the total production value of around Rs. 400 crores production for which a letter of Intent has been placed on Public Sector Undertaking.

Considering that generally, the cost of development efforts in high technology systems is known to be between 20 to 30 per cent the present 1 per cent cost of the project is remarkably low.

[Ministry of Defence (Deptt. of Defence Research and Development) letter No. Adm./6337/R.D.-26 (ii) dated 12-4-1989]

Recommendation

The Committee note that a contract was concluded with a foreign firm 'B' on 20-6-1979 on cost plus fixed fee basis with a ceiling FOB cost of \$ 7,75,000 for development of sub-system 'XX'. The Committee note with regret that the contract agreement did not stipulate any penalty clause for delay or failure of supplies as according to the Ministry, this type of contract did not permit any stipulation of penalty clause for delays. By May 1981, a sum of \$ 7,36,250 (Rs. 58.90 lakhs) being 95 per cent of contract value was drawn by firm 'B'. Another disquieting feature noticed by the Committee is that this firm failed to complete the contract inspite of the fact that 4 amendments extending the date of delivery were issued in January 1982, September 1982, June 1983 and September 1983, respectively. In addition payment of sum \$ 1,70,000 was also agreed to as an addition to the contract value. The Committee are astonished to observe that inspite of all these liberal concessions there was no progress of work after August 1982.

The Committee note that according to Amendment No. 4 issued in September 1983 firm 'B' was required to provide within 15 days of signing the amendment an irrevocable letter of credit for an amount of \$ 2,25,000. The Committee note with regret that even

though there was no progress of work after August 1982, the Ministry failed to terminate the contract immediately on expiry of latest delivery schedule of September 1983. The contract termination notice was eventually issued in September 1984. According to the Ministry of Defence, since the bulk of the development had been completed by that time their effort and interest was to persuade the firm to complete the remaining portion rather than terminate the contract. The Committee would like to be satisfied that then bulk of the development work had already been completed and the Government had also assured the additional payment of \$ 1,70,000 to the firm, why it was not possible for the Government to make the firm agree to continue with the implementation of the project. The Committee cannot help remarking that there were serious lacunae in drafting as well as enforcing of the agreement with the firm.

The Committee also note with regret that due to failure of contract with firm 'B' equipment worth Rs. 12.08 lakhs procured for sub-system 'XX' has remained unused till June 1985. This equipment remained abroad in the warehouse since January 1983 and was shipped to India on 24-6-1985 after obtaining export licence. According to the Ministry this equipment was being utilised in the indigenous development and testing of equipment 'X'. The aforesaid facts clearly indicate that there were some basic defects in the contract with firm 'B'. The making of 95 per cent advance payment without obtaining collateral security for full amount was not proper and was in total disregard of the financial interests of the Government. Besides locking/loss of substantial foreign exchange, there was also a considerable risk of failure of the firm and resultant delay in completion of the project. The Committee trust that the Government would in future exercise adequate precaution and care in drafting agreement with firms particularly in foreign countries so that the financial interest of the Government are not jeopardised and there is no loss of to the Government.

The Committee note with dismay that though the contract was terminated in September 1984, there is still no progress on the arbitration proceedings instituted against the firm in January 1985. Even the question of selection of arbitrator remains to be settled. The matter should be pursued vigorously so that arbitration proceedings are finalised as early as possible and steps taken expeditiously to recover dues to the Government. The methodology of the appointment of the Arbitrator should be specified in the contract agreements.

[Sl. Nos. 4, 5, 6 & 7 (Paras 63, 64, 65 and 66) of Appendix II to 76th Report of PAC (8th Lok Sabha)]

Action Taken

Contract with the foreign firm 'B' had to be entered into at a cost plus fixed fee basis with a ceiling of \$ 7,75,000 because the laboratory had felt that for success of the project, it was essential to have a high technology critical sub-system, the indigenous effort of which could not be assured at that time. In these high technology areas, the Laboratory had per force to agree to this cost plus fixed fee arrangements as there were not many firms in this field.

After a detailed survey of all the companies that could possibly meet the stringent requirements of the project, it was found by the project team that firm 'B' offer was suitable for the requirements of the project.

The contract was discussed with the Indian supply Mission, Finance and Legal Adviser in order to safeguard the interests of the Government of India. An arbitration clause was provided for in the contract. Further, the Laboratory had been closely monitoring the progress on development of this equipment by sending an engineer to the firm. It was only when the firm reported difficulties in achieving the stated technical performance, that, in the interest of getting the development completed, the Laboratory had to agree to 4 amendments (one after another), extending the date of delivery and resulting in certain additional amounts to cover cost escalation. The extra amount in fact was not paid.

All these details in respect of these contracts have already been furnished in our earlier answer to the Public Accounts Committee.

In spite of all the best efforts of the Laboratory, the contract had to be terminated in September 1984. As regards the delay in instituting arbitration proceedings, certain procedural steps had to be gone through as per the contract. DGISW in that country has not succeeded so far in getting the Arbitrator appointed from a panel of names suggested to him due to uncooperative attitude of the foreign firm. It is now learnt that the firm has in the meantime declared itself as Bankrupt and gone into liquidation. The legal Adviser (Defence) and Additional Financial Adviser (Defence Production and Research) have been apprised of the present situation. The Embassy of India in that country has also been advised to take all necessary action to safeguard the interest of the Government of India. Further progress made in the matter will be intimated in due course.

Further, as mentioned earlier, in the light of the above experience, suitable guidelines are being evolved by a Committee to streamline procedures for development contracts for projects, so that the financial interests of the Government are not jeopardised. These guidelines when accepted by Govt. and promulgated, a copy of the same will be furnished to Public Accounts Committee. It is also being ensured that the methodology of the appointment of the Arbitrator is specified in the contract agreement itself.

This is a rare case where a development contract has unfortunately failed inspite of our best efforts. We are, however, further streamlining the procedure for drafting and enforcing contracts in the future to safeguard the financial interests of the Government.

We are also trying to interact and encourage National Laboratories, Universities, IITs and production agencies within the country to take up some of these challenging development tasks inspite of they being stretched technologically.

[Ministry of Defence (Deptt. of Defence Research and Development) Letter No. Adm. 6337/RD-26(ii) dated 12-4-1989]

Recommendation

The Committee also find that the 2 tubes meant for sub-system 'XX' and which were procured from another foreign firm at a total cost of \$ 1,84,159 in July/August 1982, became defective due to prolonged storage in the premises of firm 'B' while one of the tubes has been repaired, the other one has not been repaired as the cost of repairs is more than half of the cost of the tube. Surprisingly, both these tubes are still with firm 'B'. The Committee would like to be informed as to why these tubes have not been received from the firm so far. It is distressing to find the lack of proper precautions on the part of the Ministry due to which huge expenditure of \$ 1,84,159 incurred on these tubes appears to have become infructuous. If the Ministry had closely monitored the project and identified areas of slippage and had taken timely corrective measures, the above tubes could have been put to use. Responsibility leading to this omission may be fixed.

[Sl. No. 8 (Para 57) of Appendix II to 76th Report of PAC
(6th Lok Sabha)]

Action Taken

Since the intention of the project team was to persuade the firm 'B' to complete the sub-system which could be put to use in the

equipment 'X', the 2 microwave tubes were allowed to be retained with the firm 'B'. Unfortunately, inspite of all efforts of the firm failed to deliver the sub-system and the contract had to be terminated. Since then, we have been making efforts to enforce the arbitration with the assistance of the Legal Adviser (Defence) and the Indian Embassy in USA. These details have been furnished in our earlier answers to the Public Accounts Committee.

Since the matter is still under discussion, the question of getting back the 2 tubes (which would have cost further expenditure) is linked with the legal case for the recovery of the damages.

The question of failure of the 2 tubes meant for the sub-system 'XX' which were stored in the premises of firm 'B' have been examined by an Expert Committee.

This Committee has opined that the failure of the tubes could be attributed to the improper usage of the tubes by the firm 'B' and the Committee also concluded that the onus of responsibility for the failure of tubes rested totally with the firm.

[Ministry of Defence (Department of Defence Research and Development) Letter No. Adm./6337/RD-26(ii) dated 12-4-1989]

Recommendation

The Committee note with regret that the scientist on whom the Ministry incurred an expenditure of Rs. 6.43 lakhs and who was deputed abroad in connection with the purchase of the equipment surreptitiously left the country and has not been repatriated even after the lapse of more than 3 years. The Government must take effective measures to get him repatriated and also take adequate step in future to ensure that such incidents do not recur. Steps must be taken immediately to execute the Bond made in favour of the Government.

[Sl. No. 9 (para 58) of Appendix II to 76th Report of PAC
(8th Lok Sabha)]

Action Taken

This Department is constantly following up the case for deportation of the Scientist with the Indian Embassy in Washington. A criminal case has also been filed against the Scientist in the Court

of Chief Metropolitan Magistrate of Ernakulam for violation of the Passport Act. Conviction of the Scientist for a criminal offence in India will facilitate a speedy repatriation of the individual from abroad. Chief Judicial Magistrate Ernakulam has since issued a warrant of arrest against the Scientist through the Commissioner of Police Cochin. Embassy of that country in New Delhi, State Department and Consulate General of India in that country have also been accordingly apprised.

The Deptt. has also taken up the above matter with the Ministry of External Affairs seeking their advice whether the warrant of arrest issued would suffice for extradition of the Scientist from abroad.

This Deptt. has also issued notices to the sureties to discharge their liabilities arising out of non compliance of bond provisions. Further progress will be intimated.

In order to ensure that the official passport issued to the DRDO officials is used exclusively for officially authorised visits, necessary instructions have already been issued to all DRDO Laboratories/establishments. The Laboratories/Establishments have been directed that official passport be handed over to the concerned official just prior to his departure and taken back immediately on return of the official from his deputation abroad for safe custody.

[Ministry of Defence (Department of Defence Research and Development) Letter No. Adm./6337/RD-26 (ii) dated 12-4-89]

NEW DELHI;

July 18, 1989

Asadha 27, 1911 (S)

P. KOLANDAIVELU,

Chairman,

Public Accounts Committee.

APPENDIX I

(Vide Para 1.2)

*Statement showing classification of action taken notes received
from Government*

- (i) Recommendations and observations which have been accepted by Government;

Sl. Nos. 3, 11 and 12.

- (ii) Recommendations and observations which the Committee do not desire to pursue in the light of the replies received from Government;

Sl. No. 10.

- (iii) Recommendations and observations replies to which have not been accepted by the Committee and which require reiteration;

Sl. Nos. 1, 2, 4—8 and 9.

APPENDIX II

Conclusions and Recommendations

Sl. No.	Para No.	Ministry/Department Concerned	Conclusion/Recommendation
1	2	3	4
1	1.7	Defence (Department of Defence Research and Development)	Even if the contention of the DRDO that they felt confident enough in 1974 only to undertake this project is accepted, the Committee feel that 14 years is too long a time for undertaking production of version I of the equipment particularly when the country was spending scarce foreign exchange on purchase of the equipment. The Committee hope that such delays would be avoided in future.
2	1.8	-do-	The Committee may be informed whether accordingly to the plan drawn, the first units of version I was delivered by December 1988 and whether the schedule of production is being maintained by the PSU. If not, the Committee would desire to know the steps taken to avoid further delays in procurement of the equipment.
3	1.14	-do-	The Committee are unhappy to note that the inordinate delay in the development of equipment 'X' not only resulted in huge escalation in the cost of the Research Project from Rs. 142.50 lakhs

to Rs. 578.76 lakhs but an additional expenditure of Rs. 45.6 crores had also to be incurred on importing 8 number of similar equipment to meet urgent air defence requirement. The Committee further note that in pursuance of their earlier recommendation, Government had appointed a Committee on effective monitoring and financial management of research projects, which submitted their Report in October, 1988. The Committee recommend that action on all the necessary steps connected with the issue of appropriate orders and implementation of the order should be closely monitored, so as to ensure that situation leading to inordinate delay and cost over-run on the research projects is not repeated in future. The Committee also recommend that the production of Versions I and II of the equipment involving a huge outlay of Rs. 531.08 crores should be monitored effectively so as to ensure that there is no slippage from the laid down production schedule.

29

4 1.24 -do-

The Committee are deeply distressed over the failure of the contract entered into with a foreign firm 'B' on 20.6.1979 for the development of a high technology critical sub-system, required for the development of equipment 'X' in spite of the fact that by May 1981, a sum of \$ 7,36,250 (Rs. 58.90 lakhs) being 85 per cent of contract value was drawn by firm 'B'. The contract failed despite the fact that four amendments extending the date of delivery were issued in January 1982, September 1982, June 1983 and September 1983 respectively. This not only delayed the development of equipment 'X' but has also resulted in a substantial loss to the exchequer. The non-cooperative attitude of firm 'B' and lack of

1	2	3	4
			adequate vigilance and timely precautions on the part of the concerned authorities of the Department are mainly responsible for this unhappy situation. There was inexcusable delay in the termination of the contract in September, 1984 even though there was no progress of work after August 1982.
5	1.25	Defence (Department of Defence Research and Development)	The Committee find that even after termination of the contract there has been lack of urgency on the part of the authorities to safeguard their financial interests . The lack of adequate efforts on the part of the authorities is evident from the inordinate time gaps in forwarding fresh panel of names for appointment as arbitrator and pursuing the issue of appointment of arbitrator.
6	1.26	-do-	Even the 2 tubes procured at a cost of \$ 1,84,159 were not only allowed to remain with firm 'B' after the termination of the contract in September 1984 but no worthwhile efforts appeared to have been made to retrieve the tubes after the firm had declared itself bankrupt and gone into liquidation on 22 September, 1987. The Committee cannot but express their displeasure at the lack of concern on the part of the concerned authorities for the financial interests of the country. The Committee strongly recommend that the question of claim preferred with the bankruptcy court of the foreign country should be continuously pursued. The Committee also recommend that the procedure for development contracts for projects should

be urgently streamlined in the light of the Report of the export Committee so that financial interests of the Government are not jeopardised in future as has been the sad experience in this case. The Committee hope that the Government would draw a lesson from this sad experience and streamline the procedure adequately to avoid recurrence of such lapses in future as the country cannot afford to take any chances in items concerning the defence preparedness of the country.

7 1.32 -dG

The Committee are concerned to note that the Scientist on whom the Ministry incurred an expenditure of Rs. 6.43 lakhs and who had surreptitiously left the country sometime in 1983 has not repatriated even after the lapse of about 6 years. What is regrettable is the fact that formal complaint in the case was filed before the Chief Judicial Magistrate, Ernakulam only in September, 1987 on an advice by the Ministry of External Affairs in April 1987. The Committee feel that such a step should have been taken much earlier in consultation with the Ministry of External Affairs. The Committee deprecate such a lackadaisical approach on the part of the concerned authorities. The Committee recommend that the Government should take all the effective measures to get the Scientist repatriated. Immediate steps must also be taken to enforce against the sureties the Bond made in favour of the Government.

PART II

MINUTES OF THE 8TH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE HELD ON 4TH OCTOBER, 1988

The Committee sat from 11.00 hrs. to 13.45 hrs. in Committee Room B, Parliament House Annexe, New Delhi.

PRESENT

Shri Amal Datta— <i>Chairman</i>	}	<i>Members</i>
2. Shri Abdul Hannan Ansari		
3. Shri Chhitubhai Gamit		
4. Shri M. Y. Ghorpade		
5. Shri Mohd. Ayub Khan		
6. Shri Y. S. Mahajan		
7. Shri S. Jaipal Reddy		
8. Maj. Gen. R. S Sparrow		
9. Smt. Usha Rani Tomar		
10. Shri Vir Sen		
11. Shri M. S. Gurupadaswamy		
12. Shrimati Monorama Pandey		
13. Shri Yalla Sesi Bhushana Rao		
14. Shri T. Chandrasekhar Reddy		
15. Shri Surender Singh		

SECRETARIAT

1. Shri B. D. Duggal—*Director (PAC)*
2. Shri A. Subramanian—*Senior Financial Committee Officer*

REPRESENTATIVES OF AUDIT

1. Shri G. M. Mani—*Addl. Dy. C&A.G.*
2. Shri M. M. B. Annavi—*Director of Audit. Defence Services.*
3. Shri R. P. Singh—*Joint Director of Audit. Defence Services.*

REPRESENTATIVES OF MINISTRY OF DEFENCE

(DEPARTMENT OF DEFENCE RESEARCH AND DEVELOPMENT)

1. Dr. V. S. Arunachalam—Secretary
2. Shri S. L. Bansal—Chief Controller R&D HQrs.
3. Shri S. Rajendran—Director LRDE, Bangalore
4. Shri A. N. Murthy—Director, Electronics and Instrumentation, R&D HQrs.
5. Brg. R. Swaminathan—Director Planning and Resource Management H&D HQrs.

FINANCE

6. Shri B. G. Joshi—Addl. Financial Adviser

The Committee took evidence of the representatives of the Ministry of Defence (Department of Defence Research and Development) on certain points arising out of the action taken notes on the recommendations contained in the 76th Report of the Public Accounts Committee (8th Lok Sabha) relating to delay in development of an equipment for Air Force. The salient points emerging from this discussion are as follows:—

Cost escalation

The Secretary, Department of Defence Research and Development informed the Committee that the original sanction for the development project was for Rs. 142.50 lakhs which was increased to Rs. 578.76 lakhs. He further explained that in this amount of Rs. 578.76 lakhs, LRDE contribution was Rs. 117.7 lakhs including original sanction of Rs. 142.50 lakhs, an amount of Rs. 207.52 lakhs was paid to the PSU for engineering etc. and that an amount of Rs. 149.4 lakhs was earmarked for equipment processing system. The contract cost with foreign firm 'B' for development of sub-system 'XX' was reported to be Rs. 73.67 lakhs.

In their earlier Report, the Committee had expressed their concern over the fact that a lot of additional expenditure had to be incurred due to delay in development of equipment 'X' and lack of adequate care in finalising agreement with suppliers. The Committee had recommended that Government should go into this aspect so as to ensure that situation of this type was not repeated in future.

The Secretary, Department of Defence Research and Development informed that in pursuance of this recommendation of the

Committee, they had appointed a Committee (with Chief Controller, Research and Development as its Chairman) on effective monitoring and financial management of Research Project etc.; this Committee had submitted their Report in October, 1988.

Failure of the contract with firm 'B'

The Committee were informed that after 1982 the firm B went into a difficult situation and it could not hold on the engineers working with them and there was no further cash flow from the Indian Government also. Three specialised engineers working on this project were reported to have moved out of the firm B around June-July 1982. Since the financial position of the firm was already in shambles and the Indian Government had already paid 95 per cent of the contracted amount, the Committee enquired why the Government did not invoke the bank guarantee when the specialised engineers had pulled out. The representative of the Department stated that the President of the firm kept assuring the Government of India that if some more time were given to him, the job would be completed. Since 95 per cent had already been paid, the Committee enquired what other incentives the firm was looking forward to and with the withdrawal of the engineers and the bank guarantee period being on the point of lapsing, the Committee desired to know the reasons for not enforcing the bank guarantee. The representative of the Ministry stated that the main thrust of going in for this contract was acquisition of the hi-tech item for the equipment and that though the bank guarantee could have been encashed and the issue precipitated the Department asked the President of the firm to come to the negotiating table. The representative further added that the issue depended on the ability of the management to find somebody else who could do this work. Asked to state whether between 1982 and 1984 firm B called for any other engineer who had more knowledge or expertise in this field, the representative stated that he was not aware of it.

The Secretary, Department of Defence Research and Development informed the Committee that in pursuance of the earlier recommendation of the Committee, a Committee was appointed to go into procedure for awarding defence contracts and the Committee were, in particular, requested to devise a suitable proforma. He further informed that the Committee had submitted their report, which has been sent to the Law Ministry because this proforma has to be validated by the Law Ministry.

The Committee then adjourned.

MINUTES OF THE 3RD SITTING OF THE PUBLIC ACCOUNTS
COMMITTEE HELD ON 12-7-1989

The Committee sat from 1400 hrs. to 1500 hrs. in Committee Room 'D', Parliament House Annexe, New Delhi.

PRESENT

Shri P. Kolandaivelu—*Chairman*

MEMBERS

Lok Sabha

2. Shri Abdul Hannan Ansari
3. Shri Chhitubhai Gamit
4. Shri Mohd. Ayub Khan
5. Maj Gen. R. S. Sparrow
6. Shrimati Usha Rani Tomar
7. Shri Vir Sen

Rajya Sabha

8. Shri Rameshwar Thakur
9. Shri Surender Singh

SECRETARIAT

1. Shri G. L. Batra—*Joint Secretary*
2. Shri K. K. Sharma—*Deputy Secretary*
3. Shri A. Subramanian—*Sr. Financial Committee Officer*

REPRESENTATIVES OF AUDIT

1. Shri Parameswar—Addl. Dy. CAG
2. Shri S. B. Krishnan—Director (Reports)
3. Shri V. Srikantan—DA (P&T)
4. Shri R. P. Singh—JDA, DS DADS, New Delhi
5. Shri K. Jayaraman—JDA (Railways)

2.

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3. The Committee then took up consideration of the draft Report on 76th Report of the Public Accounts Committee (Eighth Lok Sabha) relating to delay in development of an equipment for Air Force and adopted the same with certain minor modifications as shown in the Annexure.

4. * * *

5. The Committee authorised the Chairman to incorporate in the reports other minor modifications/amendments arising out of factual verification of the same by Audit in respect of these Reports. The Committee also authorised the Chairman to present these reports to the House.

The Committee then adjourned

ANNEXURE

Modifications made by the Public Accounts Committee in the Draft Report on action taken by Government on the recommendations contained in the 76th Report of the PAC (8th Lok Sabha) relating to delay in development of an equipment for Air Force.

Page	Para	Line	For	Read
23	1.32	14	Delete	'strongly'
23	1.32	17	executa	enforce against het Sureties

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BIHAR		WEST BENGAL	
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